



Report to the Auburn City Council

Action Item
Agenda Item No. **7**

[Signature]
City Manager's Approval

To: Honorable Mayor and City Council Members
From: George E. Williams, City Treasurer
Andy Heath, Administrative Services Director
Date: January 14, 2013
Subject: Quarterly Report of Investments – Quarter Ending September 30, 2012

The Issue

The City Council is required by state law and the City of Auburn's Investment Policy to receive and review a Quarterly Investment Report.

Recommended Action Requested

Receive, review and file the "*City of Auburn Quarterly Investment Report*" for the quarter ending September 30, 2012.

Background

The City of Auburn Quarterly Investment Report (Investment Report) for the quarter ending September 30, 2012 has been prepared in compliance with the reporting requirements as set for in the State of California Government Code Sections 53600 et seq. and the City of Auburn Investment Policy. The Investment Report contains the following information:

- Identification of the type of each investment held in the City's Treasury;
- Identification of the legal name of the issuer or fiduciary of each investment held in the City's Treasury;
- A listing of the dollar amount invested for each item in the Treasury Portfolio;
- A listing of the maturity date of those investments having fixed maturities;
- A confirmation that the reported investments conform to the City's adopted investment policy; and
- A confirmation of the City's ability to meet it's pooled expenditure requirements for the next six months.

AnalysisINVESTMENT SUMMARYCity of Auburn Pooled Investment Accounts:

<i>For the quarter ended:</i>	<u>September 2012</u>	<u>June 2012</u>	<u>September 2011</u>
Portfolio value – end of quarter:	\$12,788,647	\$13,935,975	\$10,522,357
Portfolio effective yield – end of quarter:	0.82%	0.85%	1.28%
Dollar-weighted days to maturity – end of quarter:	470	556	411
Portfolio interest earnings (1) – end of quarter:	\$27,149	\$34,153	\$56,576
Net unrealized gain / (loss) (2) – end of quarter:	\$5,573	\$3,731	\$(26,529)

Auburn Urban Development Authority Account:

<i>For the quarter ended:</i>	<u>September 2012</u>	<u>June 2012</u>	<u>September 2011</u>
Portfolio value – end of quarter:	\$347,152	\$347,152	\$1,046,818
Portfolio effective yield – end of quarter:	4.25%	4.25%	1.42%
Dollar-weighted days to maturity – end of quarter:	380	470	245
Portfolio interest earnings (1) – end of quarter:	\$0	\$6,370	\$1,280

Sewer Revenue Bond Proceeds Account

<i>For the quarter ended:</i>	<u>September 2012</u>	<u>June 2012</u>	<u>September 2011</u>
Portfolio value – end of quarter:	\$1,587,274	\$1,673,905	\$1,658,516
Portfolio effective yield – end of quarter:	1.50%	1.38%	1.22%
Dollar-weighted days to maturity – end of quarter:	375	392	357
Portfolio interest earnings (1) – end of quarter:	\$2	\$7,602	\$3,565

- (1) Interest earnings on investments distributed to City during reporting quarter.
- (2) Unrealized “paper” gains / (losses) on investments due to fluctuations in market value. Unrealized gains and losses impact interest earnings each month as the City is required to account for and book investments at marketable value.

PORTFOLIO / TREND ANALYSIS

As a means to account for the investment of both Auburn Urban Development Authority (AUDA) and Wastewater Treatment Facility Upgrade Project bond proceeds received in October 2008 and August 2009, respectively, the Investment Report includes appropriate analysis for these separately invested funds. In addition to the table presented as part of the Investment Summary above, attachments to this report have also been updated to include appropriate investment information related to the bond proceeds held in trust.

As the projects supported by the bond proceeds become completed and all project-related funds are expended, funds remaining in the bond proceeds trust accounts will only include applicable debt service reserves which are required to remain in trust until the bonds are fully paid off. As of September 30, 2012, all project-related bond proceeds held for the Auburn Urban Development Authority (AUDA) have been used to reimburse applicable project expenditures. Funds remaining in the AUDA bond proceeds account are being held over the life of the bonds as a debt service reserve. Funds remaining in the Sewer Revenue Bonds account include both a debt service reserve and approximately \$1 million in unspent bond proceeds.

Attachment A provides detailed information for each of the City’s investments as of the quarter ended September 30, 2012. Investments are categorized into one of five groups:

Fixed Rate Investments: Investments purchased which pay interest on a periodic basis at a fixed coupon / stated rate. Discounted commercial paper is also

included in this group. Fixed Rate Investments, consistent with the City's Investment Policy, are generally held to maturity and not sold in the open market.

Pooled Investments: Monies pooled with the State of California (Local Agency Investment Fund) and Placer County (County Investment Pool) which are generally available on a daily basis.

Unrestricted Financial Institution Investments: Unrestricted operating account monies available in demand accounts for accounts payable, payroll and jet fuel-related accounts. Certificates of deposit and money market accounts are also included with this group.

Restricted Financial Institution Investments: Restricted demand accounts maintained for the payment of obligations for designated city programs.

AUDA / Sewer Revenue Bond Proceeds: All bond proceeds are invested separate from the pooled investment accounts. Bond proceeds are invested consistent with anticipated project payment schedules and have been placed in a CDARS Certificate of Deposit Program, which is 100% FDIC insured. Matured CDARS investments remain with the Bond Proceeds Trustee in a liquid money market account until drawn on by the City to cover applicable project expenditures.

Attachment B provides investment trend information for the last nine quarters. The City's investment portfolio effective yield as of September 30, 2012 is 0.82%. The effective yield has decreased 3 basis points (0.03%) when compared to the yield reported for quarter ended June 30, 2012 (0.85%). The decrease in yield can be primarily attributed to the holding of idle funds in liquid accounts to meet cash flow needs during the six month "dry-financing" period preceding the semiannual receipt of property tax funds from the County in January 2013. It should be mentioned, however, that overall market interest rates continue to remain near all-time record lows.

During the quarter ended September 30, 2012, the City realized \$27,149 in investment earnings. In addition to the investment earnings, the City experienced a \$5,573 unrealized gain in portfolio market value. Unrealized market gains and losses, which are required to be amortized into the portfolio value, fluctuate from month-to-month in response to overall market conditions.

As discussed in previous investment reports, Lehman Brothers, the fourth largest investment bank in the United States at the time, filed for bankruptcy on September 15, 2008. The Lehman Brothers bankruptcy, which followed by only a week the Federal Government "bail out" of Fannie Mae and Freddie Mac, provided an indication of the severe financial market turmoil to come as a result of the unwinding of loose lending policies and excessive credit provided during the housing boom over the past decade. At the time of the Lehman bankruptcy, the City owned a medium-term corporate bond in Lehman Bros. Holdings in the amount of \$125,000. The value of the bond which has since matured however, continues to be held in the City's portfolio concurrent with

bankruptcy court proceedings. As of September 30, 2012, the value of the bond was \$30,871. An unrealized loss of \$86,045 has been fully amortized as a component of the unrealized investment gains and losses.

In response the bankruptcy action taken by Lehman, City staff continues to monitor ongoing bankruptcy proceedings (the City has filed a claim) and the investigation and prosecution of a case against certain individuals or entities responsible for losses stemming from the City's investment in Lehman Bros. As a result of the continued legal effort to collect on the bond, the City has received a total of \$7,575 as partial distributions since April 2012. Staff continues to work with appointed counsel in an effort to recover additional portions of the investment loss.

During the quarter ended September 30, 2012, the City's pooled investment portfolio decreased by approximately \$1.15 million (not including bond proceeds held in trust). The decrease in portfolio value can be primarily attributed to the use of cash on hand prior to receiving the first half of property tax-related receipts from the County in January 2013.

All investments held at September 30, 2012 conform to the City's Investment Policy and the State of California Government Code. Based on the Administrative Services Department's cash flow projection as of September 30, 2012, funds on deposit and anticipated revenue collections for the period October 1, 2012 through March 31, 2013 are sufficient to meet all anticipated City expenditures during the same period.

INVESTMENT POLICY EXCEPTION

None.

PORTFOLIO INVESTMENT EARNINGS

Below is a comparison of actual Investment earnings on the City's portfolio to the fiscal year 2012-13 budget.

<u>Net Investment Earnings</u>	<u>Yield</u>	<u>General Fund</u>	<u>Other Funds</u>
<i>Three Months Ending 09/30/12</i>			
Budget	1.00%	\$ 6,250	\$ 30,000
Actual (1)	0.90%	<u>3,190</u>	<u>29,532</u>
Variance		<u>(\$ 3,060)</u>	<u>(\$ 468)</u>

(1) Includes all portfolio funds (pooled investments and bond funds) and amortization of unrealized market value loss

Alternatives Available to Council; Implications of Alternatives

1. Request the City Treasurer to prepare supplemental information for review by the City Council at a future meeting.

Fiscal Impact

The year-to-date yield on investment earnings actually received for the City's portfolio of investments is 0.90%. An average yield of 1.00% was forecasted in the City's adopted operating budget for Fiscal Year 2012-13. Attainment of interest revenues consistent with forecasted yields is directly contingent on average cash balances held in citywide funds.

Attachment A – Investment Portfolio Analysis

Attachment B – Treasury Investment Pool Quarterly Comparison

City of Auburn
Portfolio Analysis
Quarter Ending September 30, 2012

Attachment A

9/30/2012

	<u>Market Value</u>	<u>Current Yield</u>	<u>Dollar Weighted Days to Maturity</u>
<u>Fixed Rate Investments</u>			
US Government Bonds	\$ 4,021,193	1.32%	1,472
Corporate Notes	282,930	4.75%	65
Negotiable Certificates of Deposit	-	0.00%	-
Subtotal:	<u>\$ 4,304,123</u>		
Dollar-Weighted Average Yield:		<u>1.55%</u>	
Dollar Weighted Days to Maturity:			<u>1,380</u>

Pooled Investments

State of California LAIF	\$ 42,290	0.35%	1
Placer County Investment Pool	2,239,937	1.60%	1
Subtotal:	<u>\$ 2,282,227</u>		
Dollar-Weighted Average Yield:		<u>1.58%</u>	
Dollar Weighted Days to Maturity:			<u>1</u>

Unrestricted Financial Institution Investments

Wells Fargo Bank - Commercial Checking	\$ 5,413,700	0.00%	1
Wells Fargo Bank - Payroll Checking	93,679	0.00%	1
Wells Fargo Bank - Aviation Fuel Account	8,184	0.05%	1
Tri Counties Bank - Cert of Deposit	256,890	0.40%	227
Community First Bank - Cert of Deposit	250,000	0.55%	16
UMPQUA Bank Money Market	120,794	0.36%	1
Southwest Securities (Money Markets)	14,859	0.05%	1
	<u>\$ 6,158,106</u>		
Dollar-Weighted Average Yield:		<u>0.05%</u>	
Dollar Weighted Days to Maturity:			<u>11</u>

City of Auburn
Portfolio Analysis
Quarter Ending September 30, 2012

Attachment A

9/30/2012

	Market Value	Current Yield	Dollar Weighted Days to Maturity
<u>Restricted Financial Institution Investments</u>			
Bank of America - Chiropractic Checking	\$ 4,124	0.00%	1
Bank of America - Vision Checking	5,668	0.00%	1
Bank of America - Dental Checking	5,544	0.00%	1
Bank of America - Landfill Closure Account	12,814	0.02%	1
Wells Fargo Bank - AUESD Relocation Account	16,041	0.00%	1
	<u>\$ 44,191</u>		
Dollar-Weighted Average Yield:		<u>0.01%</u>	
Dollar Weighted Days to Maturity:			<u>1</u>

Unrestricted Investment Portfolio Valuation	\$ 12,744,456	0.83%	472
Restricted Investment Portfolio Valuation	<u>\$ 44,191</u>	<u>0.01%</u>	<u>1</u>
Total Pooled Investments Portfolio Valuation	<u>\$ 12,788,647</u>	<u>0.82%</u>	<u>470</u>
Total AUDA Bond Proceeds Account	<u>\$ 347,152</u>	<u>4.25%</u>	<u>380</u>
Total Sewer Revenue Bond Proceeds Account	<u>\$ 1,587,274</u>	<u>1.50%</u>	<u>375</u>

City of Auburn
Bond Maturity - Detail
Quarter Ending September 30, 2012

Attachment A

9/30/2012

	<u>Market Value</u>	<u>Current Yield</u>	<u>Maturity</u>
<u>US Agency Bonds</u>			
Federal National Mortgage Assn (\$500K)	512,870	4.02%	5/28/2013
Federal National Mortgage Assn (\$750K)	751,688	0.50%	1/25/2017
Federal Farm Credit Bank (\$750K)	753,075	1.17%	2/21/2017
Federal Farm Credit Bank (\$1 Million)	1,000,050	1.03%	3/27/2017
Federal Farm Credit Bank (\$1 Million)	1,003,510	0.97%	7/24/2017
Subtotal:	<u>\$ 4,021,193</u>		
Dollar-Weighted Average Yield:		<u>1.32%</u>	
Dollar Weighted Days to Maturity:			<u>1,472</u>

Corporate Notes

Lehman Brothers Holdings (\$116,826)	30,781	0.00%	9/30/2012
Citigroup, Inc (\$125K)	125,239	5.29%	10/17/2012
Merrill Lynch (\$125K)	126,910	5.37%	2/5/2013
Subtotal:	<u>\$ 282,930</u>		
Dollar-Weighted Average Yield:		<u>4.75%</u>	
Dollar Weighted Days to Maturity:			<u>65</u>

Negotiable Certificates of Deposit

None

Subtotal:	<u>\$ -</u>		
Dollar-Weighted Average Yield:		<u>0.00%</u>	
Dollar Weighted Days to Maturity:			<u>-</u>

UBOC Total Valuation:	<u>\$ 4,304,123</u>	<u>1.55%</u>	<u>1,380</u>
Cost Basis:	<u>\$ 4,365,534</u>		
Net Unrealized Gain / (Loss):	<u>\$ (61,412)</u>		

**CITY OF AUBURN
TREASURY INVESTMENT POOL
QUARTERLY COMPARISONS**

Attachment B

<u>City of Auburn Pooled Investment Accounts</u>	<u>Investment Amounts at 09/30/12</u>	<u>Current Investment Yield</u>	<u>Investment Amounts at 06/30/12</u>	<u>Current Investment Yield</u>	<u>Investment Amounts at 03/31/12</u>	<u>Current Investment Yield</u>
State of California L.A.I.F.	\$ 42,290	0.35%	\$ 42,253	0.36%	\$ 42,213	0.36%
Placer County Treasury Investment	2,239,937	1.60%	2,229,873	1.58%	2,221,982	1.46%
US Gov't/Agency Bonds (held by UBOC)	4,021,193	1.32%	5,015,883	1.32%	4,760,283	1.41%
Negotiable Certs. of Deposit (held by UBOC)	-	0.00%	-	0.00%	-	0.00%
Corporate Notes (held by UBOC)	282,930	4.75%	282,667	4.75%	292,111	4.60%
Southwest Securities (Formerly ML Stern)	14,859	0.05%	14,894	0.05%	14,892	0.05%
Tri Counties Bank (CDARS Program)	256,890	0.40%	256,889	0.40%	256,888	0.40%
Wells Fargo Bank (Checking / Payroll / Fuel)	5,515,563	0.00%	5,680,442	0.00%	4,295,277	0.00%
Bank of America (Landfill Trust Account)	12,814	0.05%	10,840	0.05%	40,287	0.05%
Bank of America (Vision Account)	5,668	0.00%	5,735	0.00%	5,805	0.00%
Bank of America (Dental Account)	5,544	0.00%	5,605	0.00%	5,675	0.00%
UMPQUA Bank (Money Market Demand)	120,794	0.36%	120,667	0.48%	120,546	0.48%
Community First Bank (Cert. of Deposit)	250,000	0.55%	250,000	0.55%	500,000	1.11%
Wells Fargo Bank (AUESD Relocation)	16,041	0.00%	16,041	0.00%	16,041	0.00%
Bank of America (Chiropractic Care Acct)	4,124	0.00%	4,186	0.00%	4,248	0.00%
Totals	\$ 12,788,647	Overall Yield = 0.82%	\$ 13,935,975	Overall Yield = 0.85%	\$ 12,576,248	Overall Yield = 0.96%
<u>AUDA / Sewer Bond Proceeds Accounts</u>						
Reliance Trust - AUDA (CDARS Program)	\$ 347,152	4.25%	\$ 347,152	4.25%	\$ 340,782	4.33%
Reliance Trust - Sewer (CDARS Program)	\$ 1,587,274	1.50%	\$ 1,673,905	1.38%	\$ 1,666,302	1.39%
Summary of Investments	9/30/2012		6/30/2012		3/31/2012	
State Pool	0.3%	\$ 42,290	0.3%	\$ 42,253	0.3%	\$ 42,213
County Pool	15.2%	2,239,937	14.0%	2,229,873	15.2%	2,221,982
Corporate Bonds	1.9%	282,930	1.8%	282,667	2.0%	292,111
U.S. Agencies	27.3%	4,021,193	31.4%	5,015,883	32.6%	4,760,283
Negotiable Certificate of Deposit	0.0%	-	0.0%	-	0.0%	-
Financial Institutions	42.1%	6,202,297	39.9%	6,365,299	36.1%	5,259,659
Bond Proceeds / Debt Svc Reserve	13.1%	1,934,426	12.7%	2,021,057	13.8%	2,007,084
Investment Total	100.0%	\$ 14,723,073	100.0%	\$ 15,957,032	100.0%	\$ 14,583,332

CITY OF AUBURN
TREASURY INVESTMENT POOL
QUARTERLY COMPARISONS

Attachment B

<u>City of Auburn Pooled Investment Accounts</u>	<u>Investment Amounts at 12/31/11</u>	<u>Current Investment Yield</u>	<u>Investment Amounts at 09/30/11</u>	<u>Current Investment Yield</u>	<u>Investment Amounts at 06/30/11</u>	<u>Current Investment Yield</u>
State of California L.A.I.F.	\$ 42,173	0.39%	\$ 42,132	0.38%	\$ 42,082	0.45%
Placer County Treasury Investment	2,214,040	1.44%	2,205,845	2.02%	2,195,347	1.80%
US Gov't/Agency Bonds (held by UBOC)	3,531,030	1.94%	3,289,120	2.07%	5,550,718	2.20%
Negotiable Certs. of Deposit (held by UBOC)	-	0.00%	-	0.00%	-	0.00%
Corporate Notes (held by UBOC)	284,971	4.71%	281,511	4.77%	296,442	4.53%
Southwest Securities (Formerly ML Stern)	14,893	0.05%	14,893	0.05%	14,927	0.05%
Tri Counties Bank (CDARS Program)	256,481	0.75%	256,003	0.75%	255,520	0.75%
Wells Fargo Bank (Checking / Payroll / Fuel)	1,981,086	0.00%	3,743,244	0.00%	2,450,854	0.00%
Bank of America (Landfill Trust Account)	39,940	0.05%	37,304	0.05%	39,100	0.05%
Bank of America (Vision Account)	700	0.00%	770	0.00%	837	0.00%
Bank of America (Dental Account)	10,863	0.00%	10,863	0.00%	10,864	0.00%
UMPQUA Bank (Money Market Demand)	120,402	0.48%	120,257	0.48%	120,113	0.49%
Community First Bank (Cert. of Deposit)	500,000	1.11%	500,000	1.11%	500,000	1.11%
Wells Fargo Bank (AUESD Relocation)	16,041	0.00%	16,041	0.00%	16,041	0.00%
Bank of America (Chiropractic Care Acct)	4,309	0.00%	4,374	0.00%	4,436	0.00%
Totals	\$ 9,016,929	Overall Yield = 1.35%	\$ 10,522,357	Overall Yield = 1.28%	\$ 11,497,281	Overall Yield = 1.60%
<u>AUDA / Sewer Bond Proceeds Accounts</u>						
Reliance Trust - AUDA (CDARS Program)	\$ 1,053,959	1.41%	\$ 1,046,818	1.42%	\$ 1,841,939	0.82%
Reliance Trust - Sewer (CDARS Program)	\$ 1,666,228	1.38%	\$ 1,658,516	1.22%	\$ 2,614,753	1.63%
<u>Summary of Investments</u>	<u>12/31/2011</u>		<u>9/30/2011</u>		<u>6/30/2011</u>	
State Pool	0.4%	\$ 42,173	0.3%	\$ 42,132	0.3%	\$ 42,082
County Pool	18.9%	2,214,040	16.7%	2,205,845	13.8%	2,195,347
Corporate Bonds	2.4%	284,971	2.1%	281,511	1.9%	296,442
U.S. Agencies	30.1%	3,531,030	24.9%	3,289,120	34.8%	5,550,718
Negotiable Certificate of Deposit	0.0%	-	0.0%	-	0.0%	-
Financial Institutions	25.1%	2,944,715	35.6%	4,703,749	21.4%	3,412,692
Bond Proceeds / Debt Svc Reserve	23.2%	2,720,187	20.5%	2,705,334	27.9%	4,456,692
Investment Total	100.0%	\$ 11,737,116	100.0%	\$ 13,227,691	100.0%	\$ 15,953,973

CITY OF AUBURN
TREASURY INVESTMENT POOL
QUARTERLY COMPARISONS

Attachment B

<u>City of Auburn Pooled Investment Accounts</u>	<u>Investment Amounts at 03/31/11</u>	<u>Current Investment Yield</u>	<u>Investment Amounts at 12/31/10</u>	<u>Current Investment Yield</u>	<u>Investment Amounts at 09/30/10</u>	<u>Current Investment Yield</u>
State of California L.A.I.F.	\$ 42,030	0.51%	\$ 41,982	0.47%	\$ 41,927	0.51%
Placer County Treasury Investment	2,186,103	2.06%	2,176,086	1.70%	2,166,262	2.15%
US Gov't/Agency Bonds (held by UBOC)	6,020,803	2.26%	4,532,350	2.25%	5,067,490	2.22%
Negotiable Certs. of Deposit (held by UBOC)	197,101	4.03%	198,775	3.99%	299,033	3.97%
Corporate Notes (held by UBOC)	296,442	4.53%	418,261	4.78%	421,610	4.77%
Southwest Securities (Formerly ML Stern)	14,927	0.05%	14,927	0.05%	14,927	0.05%
Tri Counties Bank (CDARS Program)	255,039	0.75%	256,897	0.95%	256,290	0.95%
Wells Fargo Bank (Checking / Payroll / Fuel)	446,562	0.00%	309,501	0.00%	936,541	0.00%
Bank of America (Landfill Trust Account)	41,584	0.07%	70,880	0.10%	65,825	0.10%
Bank of America (Vision Account)	1,429	0.00%	1,472	0.00%	1,498	0.00%
Bank of America (Dental Account)	10,337	0.00%	10,449	0.00%	10,469	0.00%
UMPQUA Bank (Money Market Demand)	119,959	0.54%	119,796	0.55%	119,627	0.61%
Community First Bank (Cert. of Deposit)	500,000	1.11%	500,000	1.11%	500,000	2.27%
Wells Fargo Bank (AUESD Relocation)	16,041	0.00%	16,041	0.00%	16,041	0.00%
Bank of America (Chiropractic Care Acct)	4,518	0.00%	4,580	0.00%	4,643	0.00%
Totals	\$ 10,152,875	Overall Yield = 2.08%	\$ 8,671,997	Overall Yield = 2.03%	\$ 9,922,183	Overall Yield = 2.08%
<u>AUDA / Sewer Bond Proceeds Accounts</u>						
Reliance Trust - AUDA (CDARS Program)	\$ 1,924,229	0.78%	\$ 1,923,017	0.78%	\$ 1,958,182	3.82%
Reliance Trust - Sewer (CDARS Program)	\$ 2,593,754	1.64%	\$ 2,593,678	1.64%	\$ 3,879,191	1.24%
Summary of Investments	3/31/2011		12/31/2010		9/30/2010	
State Pool	0.3%	\$ 42,030	0.3%	\$ 41,982	0.3%	\$ 41,927
County Pool	14.9%	2,186,103	16.5%	2,176,086	13.7%	2,166,262
Corporate Bonds	2.0%	296,442	3.2%	418,261	2.7%	421,610
U.S. Agencies	41.0%	6,020,803	34.4%	4,532,350	32.2%	5,067,490
Negotiable Certificate of Deposit	1.3%	197,101	1.5%	198,775	1.9%	299,033
Financial Institutions	9.6%	1,410,396	9.9%	1,304,543	12.2%	1,925,861
Bond Proceeds / Debt Svc Reserve	30.8%	4,517,983	34.2%	4,516,695	37.0%	5,837,373
Investment Total	100.0%	\$ 14,670,858	100.0%	\$ 13,188,692	100.0%	\$ 15,759,556